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CHAPTER 3

FINANCIAL MANAGEMENT

I. OVERVIEW

HOME Grantees, whether local governments or Community Housing Development Organizations (CHDOs), are accountable for proper financial management of all HOME Program funds.

This chapter provides guidance on the federal and state requirements that govern the financial management of all HOME funds so that each Grantee can maintain an adequate financial system. The financial system must be flexible enough to accommodate applicable laws and regulations and also conform to generally accepted accounting principles.

II. GRANTEE RESPONSIBILITIES

A. PROGRAM AND PROJECT BUDGETS

The project budget is a part of the contract between the MDOC and the Grantee and the Management Plan. Once the Management Plan is approved and the contract is signed, specific requirements are placed on the local government Grantee and the CHDO Grantee.

1. Formally Appropriate Grant

Counties and Municipalities: In accordance with Section 7-6-4006 of the MCA, a governing body may appropriate money and provide for the payment of debts and expenses of the local government. Money may not be disbursed, expended, or obligated except pursuant to an appropriation for which working capital is or will be available. Appropriations may be adjusted according to procedures authorized by the governing body for any federal, state, local, or private grant funds and shared revenue accepted and approved by the governing body. The governing body may amend the budget during the fiscal year by conducting public hearings at regularly scheduled meetings. Budget amendments providing for additional appropriations must identify the fund reserves, unanticipated revenue, or previously unbudgeted revenue that will fund the appropriations. (See **Chapter 1, Exhibit 1-A, Sample of Combined Resolution**).

CHDOs: The CHDO Grantee must formally adopt the project budget through formal action by its Board of Directors.

2. Spend in Accordance with Budget

Grantees must spend their grant funds in accordance with the provisions of their HOME Program budget attached to the HOME contract. **The Grantee must request written approval from MDOC to amend its budget if the modification exceeds \$5,000** (see page 3-4).

B. PROJECT SET-UP

Note: **Exhibit 3-A** contains checklists, which outline the documentation Grantees are to include with Set Up Reports, Payment Requests, and Completion Reports. These checklists provide a good summary of HOME requirements.

1. Establish a Separate HOME Account

The Grantee is required to establish and maintain a separate HOME account to be used exclusively for the receipt and disbursement of HOME funds and related funds. Bank service charges, if any, are not allowable HOME administration costs. **HOME funds must not accrue interest** (i.e., the funds must be maintained in a non-interest-bearing account).

To establish a mechanism for requesting HOME funds, the Grantee must complete the *Signature Certification Form (Exhibit 3-B1)*. The *Designation of Depository Form (Exhibit 3-B2)* must be completed if the Grantee wishes to have funds deposited into its bank account. Send the original and one copy to MDOC. If the Grantee needs to change the authority signatures or depository, a new set of forms must be completed and submitted to MDOC.

2. Submit Project Set-Up Forms

Grantees must send project set-up forms to their HOME Program Officer. Project set-up forms earmark HOME funds for individual projects and subsequent draw requests. The Program Officer will review the information on the form to determine if the Grantee accurately supplied all required information, including supporting documentation. Again, **Exhibits 3A-1 through 3A-7** outline documentation requirements.

In setting up HOME-assisted projects, the following requirements must be met:

- Projects must be individually identified by the number (the IDIS activity number) established by the MDOC.
- Projects must be set-up in whole dollar amounts and must be for at least \$1,000.
- The Grantee and project owner must have formally executed a written agreement, if the Grantee is not the owner.

If the project set-up report is not received by MDOC or the information is incomplete or inadequate, the project will remain in a suspended status and no funds for the project will be available for disbursement. The funds set aside for projects in a suspended status are not considered committed and are subject to be returned to the HOME program for redistribution.

HUD-imposed time frames for committing funds are critical, so the Grantee should work closely with its assigned HOME Program Officer to ensure that deadlines are met. **All grant funds must be committed and spent within 24 months of contract execution, or they may be returned to the HOME Program for redistribution.**

HUD recently changed the Set Up and Completion Forms that will be used with each type of activity. Grantees are required to submit one copy of the form for the set up of the activity and a second copy for the completion. The exhibits to this chapter include the following forms and their corresponding checklists:

- Homebuyer Set Up and Completion Form (Exhibit 3-K) – for single and multi-address activities. Corresponding checklist: **Exhibit 3A-1**. If the project includes rehabilitation activities with the homebuyer assistance, refer to **Exhibit 3A-2** for the set up and completion documentation that is required.
- Homeowner Rehab Set Up and Completion Form (Exhibit 3-L) – for both single and multi-address activities. Corresponding checklist: **Exhibit 3A-3**.
- Rental Set Up and Completion Form (Exhibit 3-M) – for single and multi-address activities. Corresponding checklist: **Exhibit 3A-4** for multi-family rental rehab, **Exhibit 3A-5** for single-family rental rehab, and **Exhibit 3A-7** for multi-family rental new construction.
- Tenant Based Rental Assistance Set Up Form (Exhibit 3-N). Corresponding checklist: **Exhibit 3A-6**.

C. DRAW REQUESTS

Draw requests are initiated through preparation and submission of the *Request for Payment*, **Exhibit 3-D** for the Single Family Pilot Program homebuyer assistance and homeowner rehab activities (only) and **Exhibit 3-E** for all other types of projects. A computer-generated report is acceptable if it contains the same information as the pre-printed form. Funds may not be drawn in advance of need. Draw requests should be at least \$100 and in whole dollar amounts.

ALL HOME funds drawn by the Grantee must be expended for eligible costs within 15 days of receipt of funds. Any funds not expended for eligible costs within 15 days must be returned to the MDOC.

1. Budget Adjustments

- For budget adjustments less than \$5,000, the Grantee advises the Program Officer of the change and justifies it in the *Project Progress Report* and reflects it on the *Request for Payment* form. The HOME Program Officer reviews the requested change and will approve or disapprove it or will request further justification. The budget adjustment is approved when the Program Officer processes the *Request for Payment* form.
- For budget adjustments of \$5,000 or more, the Grantee must provide a written justification to the HOME Program Officer in advance of requesting funds if the. The HOME Program Officer reviews the request and provides a written response approving, disapproving, or requesting further justification for the budget amendment.

2. Payment Documentation

HOME funds are **generally** provided on a reimbursement basis. In order to minimize paperwork, Grantees may submit a *Summary of Project Expenditures (Exhibit 3-F)* with draw requests in lieu of invoices, bills, and/or receipts. The Grantee may use this summary to certify that funds requested are to reimburse legitimate HOME expenditures. An equivalent form may be used by the Grantee as long as it contains all of the requested information found on **Exhibit 3-F**. It is imperative that copies of invoices, bills, and other supporting documentation be maintained in Grantee files. The documentation will be monitored by a Program Officer to ensure that expenses are properly supported with documentation. Further, the documentation may be requested at any time by the HOME program. Settlement statements should still be submitted for all Homebuyer Assistance projects.

3. Request for Payment

Grantees shall request reimbursement of Project Costs (including soft costs), and document match activity by completing the *Request for Payment* form (**Exhibits 3-D and 3-E**). General information is included below. Details are provided in the instructions that accompany each Exhibit.

Request for Payment

The Grantee completes this section of the form and designates whether or not they want funds to be sent by return mail (warrant) or direct deposit (wired).

Status of Funds

1. Match Activity

When submitting Match documentation with the draw request, it is recommended that Grantees coordinate this process with the assigned HOME Program Officer. **Exhibit 3-G** provides a summary of information needed for match documentation. CPD Notice 97-03 provides more detailed HOME program Match guidance and can be downloaded at:

<http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/notices/index.cfm>

The minimum amount of match required by the Grantee is found in the MDOC contract under ***Special Conditions***.

Contributions that have been or will be used to satisfy a match requirement for another Federal grant or award may not be used to satisfy the matching contribution requirement for the HOME Program. Administrative and operating funds expended by Grantees are not eligible as matching contributions.

2. Soft Costs Activity Budget

Soft costs include actual, documented, reasonable costs of program management, oversight, and coordination. Grantees may account for soft costs using the *Summary of Project Expenditures (Exhibit 3-F)* in lieu of documentation. However, complete documentation for soft costs must be maintained in the project files. For example, when requesting reimbursement for salaries, wages, and benefits, it is necessary to maintain a copy of the employee's time sheet showing the number of hours worked, the hourly wage, and benefits charged to the HOME program.

Direct and Indirect Costs: Project soft costs or CHDO operating expenses must be accounted for on either a direct or indirect basis. *Direct Costs* are those costs that can be identified specifically with a particular cost objective. *Indirect Costs* are those costs incurred for a common or joint purpose that benefit more than one cost objective and are not readily assigned to the cost objective specifically benefited. If a Grantee chooses to use the indirect cost method it **must have a federally-approved cost allocation plan or an approved cost rate**.

3. Project Activity Budget

For the Single Family Pilot Program, enter the amount reserved. For all other projects, enter the amounts budgeted for each of the line items from the Project Activities Section of the approved budget, as shown on the approved Program Budget attachment of your MDOC grant contract. Grantees may submit a *Summary of Project Expenditures (Exhibit 3-F)* in lieu of supporting documentation. However, complete documentation for project expenditures must be maintained in the project files.

Examples of documentation that must be maintained for project activities include invoices, statements, bills, and receipts. A copy of the Architect's Certification for Payment or an Inspector's Report showing the amount of funds to be paid should accompany documentation to pay a contractor. A copy of the Settlement Statement must still accompany draw requests for down payment and closing cost assistance.

4. Program Income / CHDO Proceeds Summary

Program income and CHDO proceeds are gross income received by the Grantee directly generated from the use of HOME funds or matching contributions. See **Chapter 9, Part II** for details regarding program income and CHDO proceeds. Program income includes, but is not limited to, the following:

- **Proceeds from the sale of real property acquired, rehabilitated or constructed** with HOME funds and matching contributions.
- **Net income** derived from rental of real property owned by a non-CHDO Grantee. (Gross rental income minus operating expenses equals net income).
- **Principal and interest payments** from loans originated from HOME funds or matching contributions.
- **Sale of loans** made with HOME funds or matching contributions.
- **Sale of obligations** secured by loans made with HOME funds or matching contributions.
- **Interest earned** on program income pending its disposition.
- **Other interest** or return on investment permitted under general eligible activities as defined in 24 CFR 92.205(b) of HOME funds or matching contributions.
- **Loan repayments** from TBRA security deposits.

The Grantee must meet certain conditions when using program income funds. These include:

- If program income is earned prior to closeout of a project, it must be added to funds committed to the project and used to support eligible activities before the Grantee can request an additional draw down of funds.
- If a Grantee previously received a HOME award for a project that has not been closed out and they receive an additional HOME award at a later date, the program income from the earlier project must be expended on eligible activities under the new project before the Grantee can request funds from its new grant allocation.
- If a Grantee receives any program income after project completion and grant closeout, these funds must be reported on a quarterly basis to the HOME

program (**Chapter 9, Exhibit E**), and these funds may be used for additional HOME eligible activities, according to the terms of the grant closeout agreement.

Project Activity Budget Summary

The information contained in this section of the payment request form should summarize the Grantee's project(s) by the MDOC-assigned project number. Each address will have a separate project number and line in the summary. The Project Activity Budget Summary is not necessary for the Single Family Pilot Project.

Contract Reporting

This part of the *Request for Payment* asks if any funds are requested for contractor reimbursement. If the answer is "yes", the Grantee must complete the Section 3 Summary Report *Economic Opportunities for Low- and Very Low- Income Persons (Exhibit 3-H)*, and the *Contract Reporting Form (Exhibit 3-I)*. The HOME Program uses the information from these forms to report annual accomplishments regarding employment, training and contracting opportunities for low- and very low-income persons.

Local Certification

Requests for funds must not be made until the funds are actually needed. A request for funds should be made **after** the work has been inspected and found satisfactory. Endorsement of the *Request for Payment* at the local level signifies the information presented is true and accurate. The *Request for Payment* must have original, authorized signatures. (Two signatures, as found on the completed *Signature Certification Form Exhibit 3-B1*, are required.)

MDOC Certification

Upon receipt, the *Request for Payment* is reviewed and approved by a HOME Program Officer. After the request for payment is approved, the Grantee will receive funds as designated in Part 1 of the form (either direct deposit or by mail). The draw request should stipulate the preferred option. The turn-around time for receipt of funds is expected to be seven working days by return mail and 72 hours by direct deposit, as long as all documentation and approvals accompany the original draw request.

D. PROJECT PROGRESS REPORT

A signed *Project Progress Report* must accompany each *Request for Payment* form. A sample progress report is shown in **Exhibit 3-J**. The *Project Progress Report* provides a written narrative on activities that have occurred relating to Match, Soft Cost Activity, Project Activity, and Program Income or CHDO proceeds.

Grantees should coordinate **Match** documentation with the HOME Program Officer. A short narrative explaining match should be included in the *Project Progress Report*.

Under the **Soft Cost Activities** section, include the amount and a description of the use of funds requested for each soft cost line item, as shown on the *Request for Payment and Status of Funds Report*. The progress report should describe current and planned soft cost activities, highlighting any issues or concerns relevant to project administration during the period for which expenses are being reimbursed.

The **Project Activities** section must include the amount requested and a brief description of the use of funds requested for each project activity line item, as shown on the *Request for Payment*. Any other information relevant to the implementation of project activities should also be included in this section of the progress report, including a description of the cumulative progress and accomplishments achieved since program start-up and since the last progress report submitted. Use numerical terms whenever possible. For example, describe the progress of the project in terms of the number of units completed, people served, and/or total dollars spent. Any other information that appears pertinent should be included, especially if it may affect the level of accomplishment called for in the grant contract. For example, if the Grantee anticipates any problems or delays that could affect the program implementation schedule or budget, these should be fully described. Anticipated changes in the contract budget, implementation schedule, or scope of services should be discussed in detail, well in advance of the needed change. When multiple sources of funds are drawn to reimburse project costs, a summary of total costs and sources used to cover these costs should be included in the Project Activity Summary.

A narrative description of Program Income and CHDO Proceeds must be included in the *Project Progress Report* when Program Income or CHDO Proceeds are included in the *Request for Payment*. See **Chapter 9, Part II** for details regarding program income and CHDO proceeds.

E. PROJECT COMPLETION REPORTS

Within 60 days of the final draw, the appropriate project completion report must be submitted to MDOC. If a project completion report is not submitted by the due date (60 days), MDOC will suspend additional projects from being set up.

- Homebuyer assistance projects: submit **Exhibit 3-K** – *Homebuyer Set Up and Completion Form*
- Homeowner rehab projects: submit **Exhibit 3-L** – *Homeowner Rehab Set up and Completion Form*.
- Rental projects: submit **Exhibit 3-M** – *The Rental Set Up and Completion Form*.

Completion reports are not required for Tenant Based Rental Assistance projects.

Homeownership Assistance

A copy of the Settlement Statement and recorded Deed Restriction Agreement must be submitted with each *Homebuyer/Homeowner Rehab Completion Report*, if not previously submitted.

Rental Housing

If all units are not occupied by the date the completion report is due, the *Rental Completion Report* should be submitted with the information that is known. An amended report should then be filed when the remainder of the occupancy data is known. Vacant units do not count towards the income targeting requirements for the program. Participants failing to amend reports on vacant units may fail to meet this statutory program requirement.

Once all the projects within a program have been completed, a *Certification of Completion and Status of Funds Report (Chapter 9, Exhibit 9-D)* must be submitted to the HOME Program Officer. Project closeout is discussed in detail in Chapter 9.

F. PROGRAM INCOME AND CHDO PROCEEDS QUARTERLY REPORTING

After project completion and grant closeout, reporting of any and all program income or CHDO proceeds is due on a quarterly basis. Grantees are required to submit a quarterly Program Income Report (**Chapter 9, Exhibit E**) or CHDO Proceeds Report (**Chapter 9, Exhibit G**) to the HOME Program. These reports must include the previous balance (if any), receipts, and disbursements of program income or CHDO proceeds. It will also be necessary to submit Project Set-Up/Completion Reports for disbursement of program income or CHDO proceeds. This will allow the HOME Program to identify the property receiving the assistance and the final amount of assistance. See **Chapter 9, Part II** for further information.

III. GENERAL ACCOUNTING REQUIREMENTS

Local government Grantees (under HUD 24 CFR §85.20) and CHDO Grantees (under OMB Circular A-110) are required to maintain accounting records that adequately identify the source and application of funds provided for HOME-assisted activities. The records must also contain information pertaining to assets, liabilities, expenditures and income. Accountability for HOME funds requires adequate assurance that these funds are used solely for authorized purposes. For local governments, the Montana BARS System is a fund accounting system that meets all fund accounting requirements for the HOME program.

IV. INTERNAL CONTROL

Internal control is recognized as fundamental and indispensable to all types of organizations. It can be defined in terms of two elements, *administrative controls* and *accounting controls*. Administrative controls are designed to encourage adherence to prescribed policies, and accounting controls deal with safeguarding assets.

The Grantee must incorporate internal controls into the financial management section of its established Management Plan. (See **Chapter 1.**)

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CHAPTER 3

EXHIBITS

- 3-A
 - 1. Homebuyer Assistance Checklist (no rehabilitation)
 - 2. Homebuyer Assistance with Rehabilitation Checklist
 - 3. Homeowner Rehabilitation Checklist
 - 4. Multi-Family Rental Rehabilitation Checklist
 - 5. Single-Family Rental Rehabilitation Checklist
 - 6. Tenant-Based Rental Assistance Checklist
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- 3-B
 - 1. Signature Certification Form
 - 2. Designation of Depository for HOME Funds
- 3-C Reserved
- 3-D Request for Payment – **Single-Family Pilot Program Projects**
- 3-E Request for Payment
- 3-F Summary of Project Expenditures
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- 3-H Economic Opportunities for Low- and Very Low-Income Persons (HUD-60002)
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- 3-K Homebuyer Set Up and Completion Form
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